Adjusting Accounts For Financial Statements

Chapter 5

Wild and Shaw

Fundamental Accounting Principles

25th Edition

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Chapter 5 Learning Objectives

CONCEPTUAL

C1 Describe merchandising activities and cost flows.

ANALYTICAL

A1 Compute and analyze the acid-test ratio and gross margin ratio.

PROCEDURAL

P1 Analyze and record transactions for merchandise purchases using a perpetual system.

P2 Analyze and record transactions for merchandise sales using a perpetual system.

P3 Prepare adjustments and close accounts for a merchandising company.

P4 Define and prepare multiple-step and single-step income statements.

P5 *Appendix 5A* – Record and compare merchandising transactions using both periodic and perpetual inventory systems.

P6 *Appendix 5B* – Prepare adjustments for discounts, returns, and allowances per revenue recognition rules.

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Learning Objective C1

Describe merchandising activities and cost flows.

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Reporting Income for a Service Company

Service companies sell time to earn revenue.

Examples: Accounting firms, law firms, and plumbing services

Exhibit 5.1

Learning Objective C1: Describe merchandising activities and cost flows.

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Reporting Income for a Merchandiser

Merchandising companies sell products to earn revenue.

Examples: sporting goods, clothing, and auto

Merchandiser

Exhibit 5.1

Merchandising Company

NORDSTROM INC. Income Statement ($ millions)	
Revenues	$3,095
Expenses	2,672
Net income	$ 423

Merchandising Company

NORDSTROM INC.	
Net sales	$15524
Cost of goods sold	**9932**
Gross profit	**5592**
Expenses	5,096
Net income	$ 496

Exhibit 5.2

Learning Objective C1: Describe merchandising activities and cost flows.

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Operating Cycle for a Merchandiser

Begins with the purchase of merchandise and ends with the collection of cash from the sale of merchandise

Exhibit 5.3

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Inventory Systems: Graphic

Exhibit 5.4

Learning Objective C1: Describe merchandising activities and cost flows.

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Inventory Systems: Definitions

Perpetual systems

- Updates accounting records for each purchase and each sale of inventory.

Periodic systems

- Updates accounting records for purchases and sales of inventory only at the end of a period.

Learning Objective C1: Describe merchandising activities and cost flows.

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Learning Objective P1

Analyze and record transactions for merchandise purchases using a perpetual system.

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Purchases without Cash Discounts

On November 2, Z-Mart purchased $500 of merchandise inventory for cash.

Nov. 2	Merchandise Inventory	500	
	Cash		500
	Purchased goods for cash.		

Learning Objective P1: Analyze and record transactions for merchandise purchases using a perpetual system.

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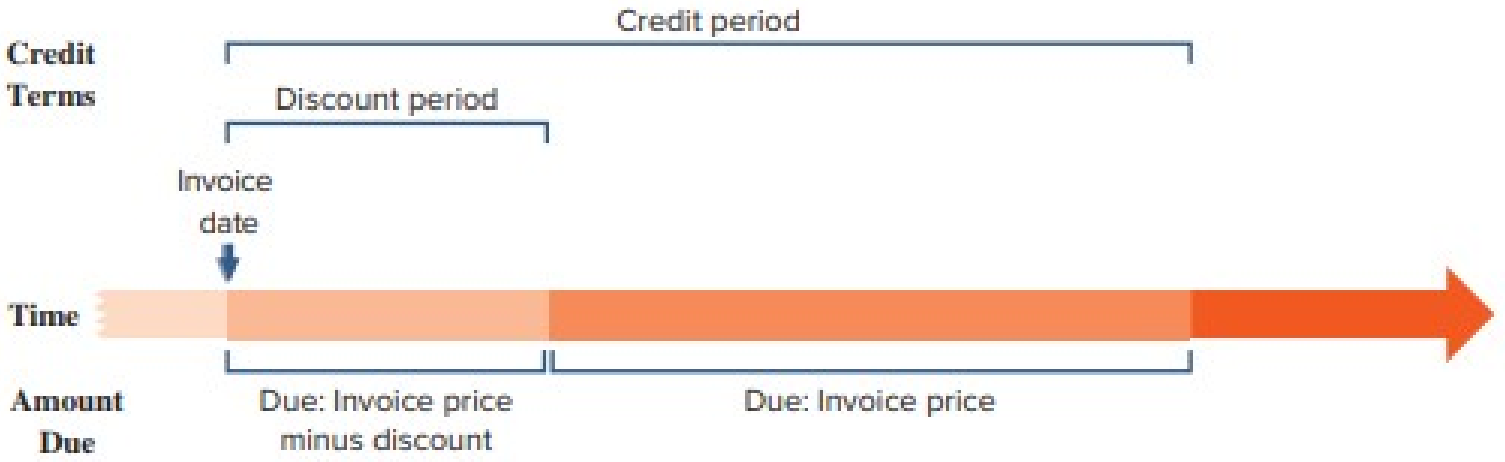
Credit Terms

Sellers can grant a **cash discount** to encourage buyers to pay earlier.

Exhibit 5.5



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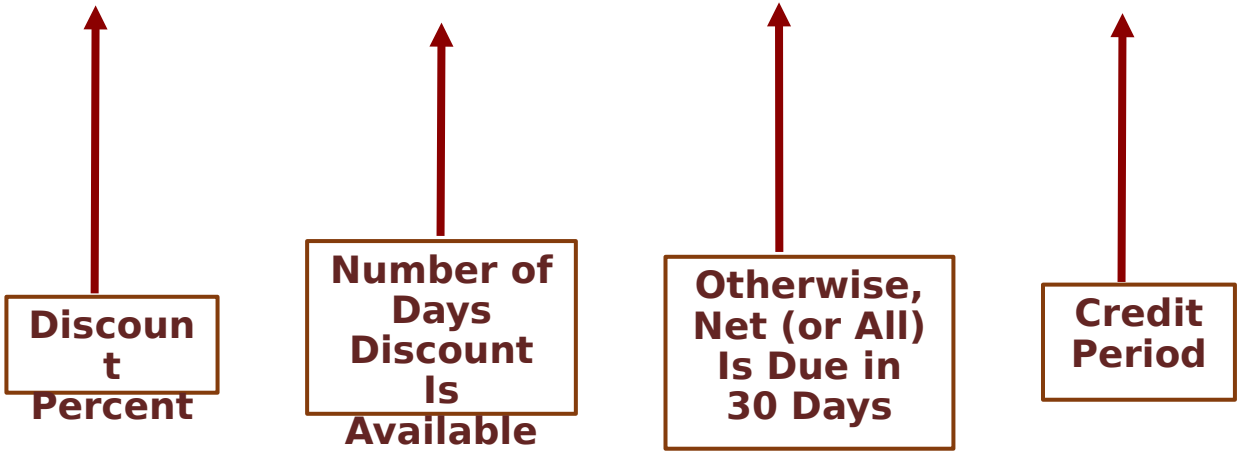
Purchase Discounts



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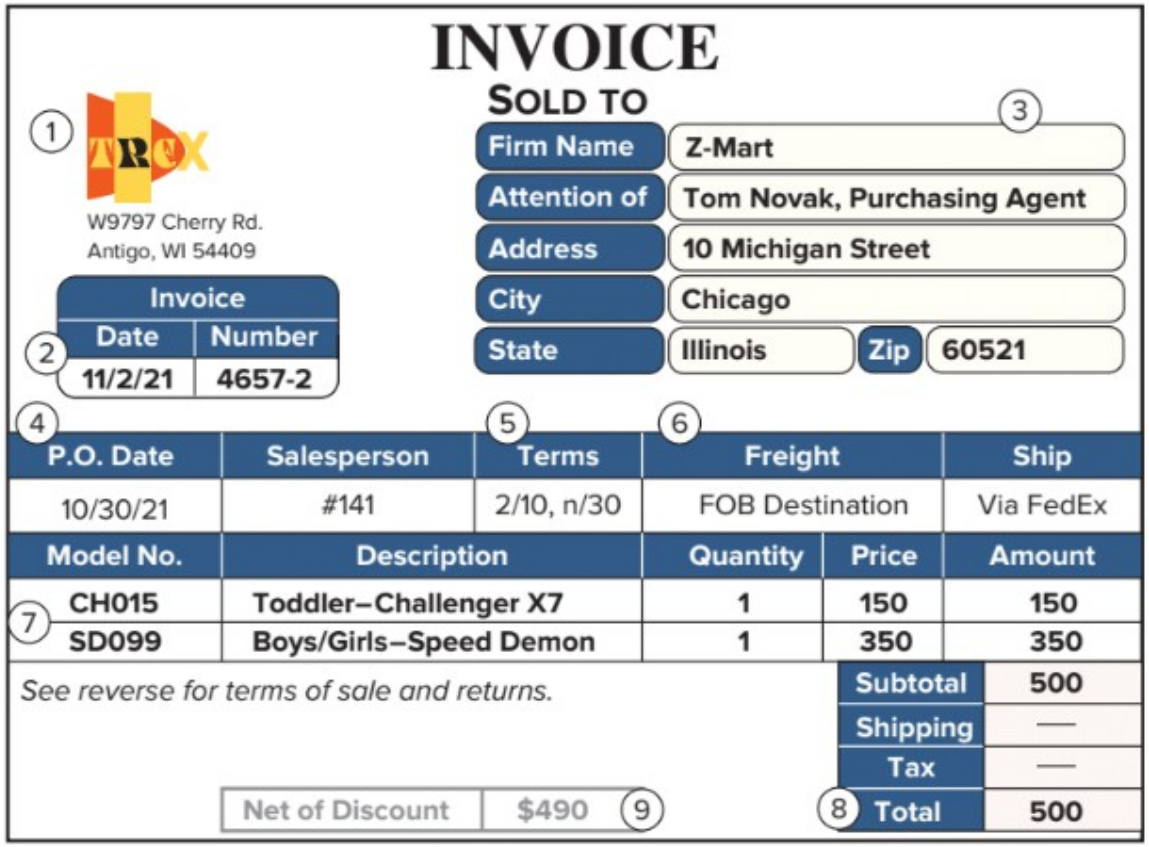
Invoice

Exhibit 5.6



INVOICE

SOLD TO

(1) TREX

W9797 Cherry Rd.
Antigo, WI 54409

Invoice	
Date	Number
11/2/21	4657-2

(2)

(3)

Firm Name	Z-Mart
Attention of	Tom Novak, Purchasing Agent
Address	10 Michigan Street
City	Chicago
State	Illinois
Zip	60521

(4) P.O. Date	Salesperson	(5) Terms	(6) Freight	Ship
10/30/21	#141	2/10, n/30	FOB Destination	Via FedEx

Model No.	Description	Quantity	Price	Amount
(7) CH015	Toddler–Challenger X7	1	150	150
SD099	Boys/Girls–Speed Demon	1	350	350

See reverse for terms of sale and returns.

Subtotal	500
Shipping	—
Tax	—
(8) Total	500

Net of Discount $490 (9)

Key:
1. Seller
2. Invoice date
3. Purchaser
4. Order date
5. Credit terms
6. Freight terms
7. Goods
8. Total invoice amount
9. Net amount

Learning Objective P1: Analyze and record transactions for merchandise purchases using a perpetual system.

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Purchases with Cash Discounts: Gross Method

On November 2, Z-Mart purchased $500 of merchandise inventory on account; credit terms are 2/10, n/30.

(*a*) Nov. 2	Merchandise Inventory	500	
	Accounts Payable		500
	Purchased goods for cash, terms 2/10, n/30.		

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Payment within Discount Period: Journal Entry

On November 12, Z-Mart paid the amount due on the purchase of November 2.

(*b1*) Nov. 2	Accounts Payable	500	
	Merchandise Inventory		10
	Cash*		490
	*Paid for goods within discount period. *$500 × (100% − 2%)*		

Learning Objective P1: Analyze and record transactions for merchandise purchases using a perpetual system.

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Payment within Discount Period: Ledger Accounts

After we post these entries, the accounts involved look like these:

Accounts Payable

Nov. 12	500	Nov 2	500
		Bal.	**0**

Merchandise Inventory

Nov. 2	500		
		Nov. 12	10
Bal.	**490**		

Cash

		Nov. 12	**490**

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Payment after Discount Period

On December 2, Z-Mart paid the amount due on the purchase of November 2.

(*b2*) Dec. 2	Accounts Payable	500	
	Cash		500
	Paid for goods outside discount period.		

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Purchases with Returns and Allowances

Purchase Allowance:

A price reduction to the buyer of defective or unacceptable merchandise.

Purchase Return:

Merchandise returned by the purchaser to the supplier.

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Purchases Allowances

On November 5, Z-Mart (buyer) agrees to a $30 allowance from Trex for defective merchandise.

(*c1*) Nov. 5	Accounts Payable	30	
	Merchandise Inventory		30
	Allowance for defective goods.		

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Purchases Returns

Z-Mart purchases $250 of merchandise on June 1 with terms 2/10, n/60. On June 3, Z-Mart returns $50 of goods before paying the invoice. When Z-Mart pays on June 11, it takes the 2% discount only on the $200 remaining balance.

June 1	Merchandise Inventory	250	
	Accounts Payable		250
	Purchased goods, terms 2/10, n/60.		
(*c2*) June 3	Accounts Payable	50	
	Merchandise Inventory		50
	Returned goods to seller		
June 11	Accounts Payable	200	
	Merchandise Inventory		4
	Cash		196
	Paid for $200 of goods less $4 discount.		

Learning Objective P1: Analyze and record transactions for merchandise purchases using a perpetual system.

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Purchases and Transportation Costs

Exhibit 5.7

Shipping Terms	Ownership Transfers at	Goods in Transit Owned by	Transportation Costs Paid by		
FOB shipping point	Shipping point	Buyer	**Buyer**	Merchandise Inventory	#
				Cash	#
FOB destination	Destination	Seller	**Seller**	Delivery Expense	#
				Cash	#

Learning Objective P1: Analyze and record transactions for merchandise purchases using a perpetual system.

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Transportation Costs

Z-Mart purchased merchandise on terms of FOB shipping point. The transportation charge is $75.

(*d*) Nov. 24	Merchandise Inventory	75	
	Cash		75
	Paid freight costs on goods .		

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Itemized Costs of Purchases

Exhibit 5.8

Itemized Costs of Merchandise Purchases	
Invoice cost of merchandise purchases	$ 235,800
Less: Purchases discounts received	(4,200)
Purchases returns and allowances	(1,500)
Add: Costs of transportation-in	2,300
Total net cost of merchandise purchases	**$232,400**

Learning Objective P1: Analyze and record transactions for merchandise purchases using a perpetual system.

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Learning Objective P2

Analyze and record transactions for merchandise sales using a perpetual system.

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Gross Profit Computation

Exhibit 5.9

Computation of Gross Profit	
Net sales (net of discounts, returns, and allowances)	$ 314,700
Cost of goods sold	230,400
Gross profit	**$ 84,300**

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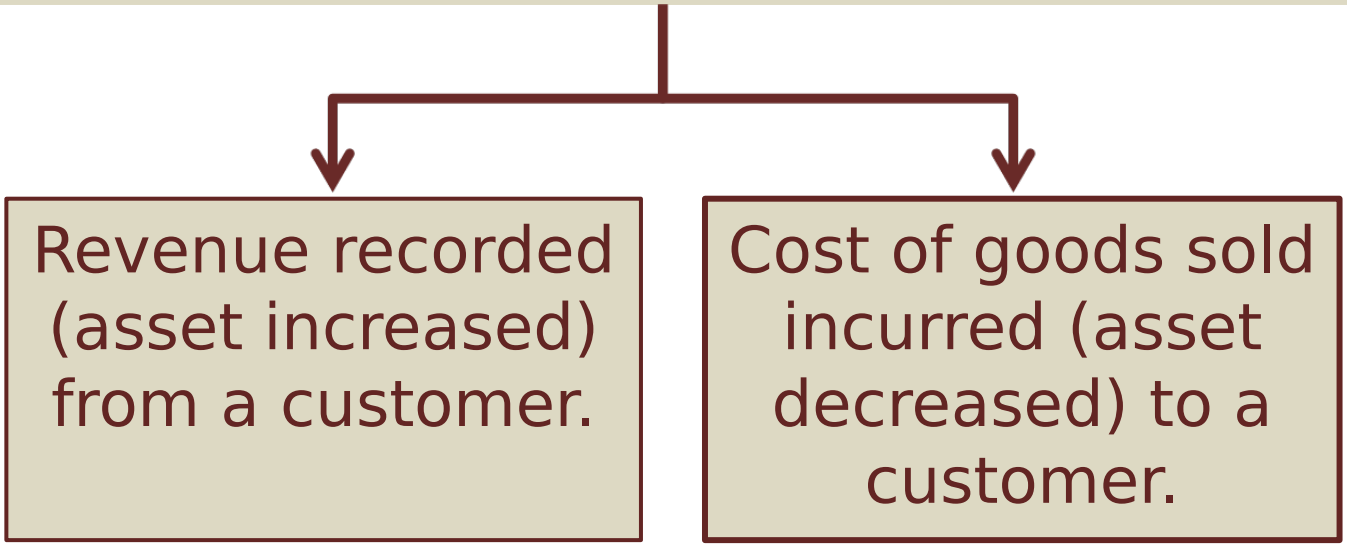
Sales of Merchandise

Each sales transaction for a seller of merchandise involves two parts:



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Sales without Cash Discounts

Z-Mart sold $1,000 of merchandise on credit. The merchandise has a cost basis to Z-Mart of $300.

Revenue side journal entry:

Nov. 12	Accounts Receivable	1,000	
	Sales.		1,000
	Sold goods on credit. [Revenue recognition.]		

Cost side journal entry:

Nov. 12	Cost of Goods Sold	300	
	Merchandise Inventory		300
	Record cost of Nov. 12 sale. [Expense recognition.]		

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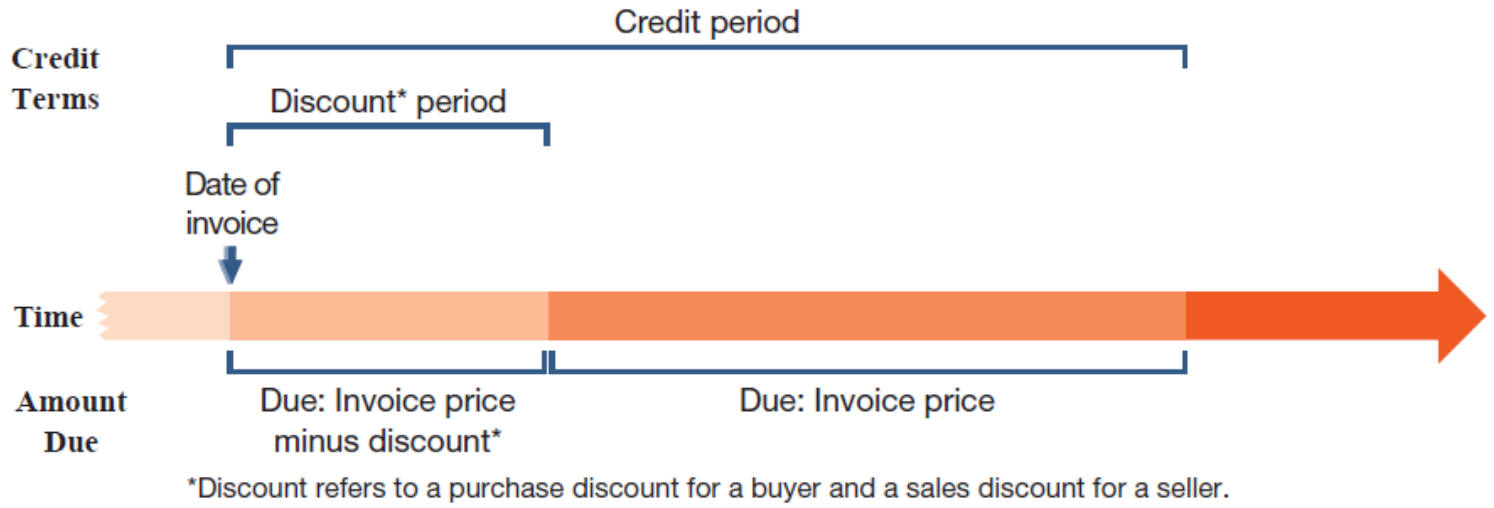
Sales Discounts

Sales discounts on credit sales can benefit a seller by decreasing the delay in receiving cash and reducing future collection efforts.

Exhibit 5.5


Credit period
Credit Terms
Discount* period
Date of invoice
Time
Amount Due
Due: Invoice price minus discount*
Due: Invoice price
*Discount refers to a purchase discount for a buyer and a sales discount for a seller.

Learning Objective P2: Analyze and record transactions for merchandise sales using a perpetual system.

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Sales with Cash Discounts

Z-Mart completes a $1,000 credit sale with terms of 2/10, n/45.

Nov. 12	Accounts Receivable	1,000	
	Sales.		1,000
	Sold goods, terms 2/10, n/45.		
Nov. 12	Cost of Goods Sold	300	
	Merchandise Inventory		300
	Record cost of Nov. 12 sale.		

Buyer pays within discount period:

Nov. 22	Cash*	980	
	Sales Discounts	20	
	Accounts Receivable		1,000
	Received payment on Nov. 12 sale less discount.		
	**$1,000 − ($1,000 × 2%)*		

Buyer pays after discount period:

Dec. 27	Cash	1,000	
	Accounts Receivable		1,000
	Received payment on Nov. 12 sale after discount period.		

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Sales Returns and Allowances

Sales returns and allowances usually involve dissatisfied customers and the possibility of lost future sales.

Sales returns refer to merchandise that customers return to the seller after a sale.

Sales allowances refer to reductions in the selling price of merchandise sold to customers.

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Sales with Returns and Allowances

Customer returns merchandise which sold for $15 and cost $9.

(*e1*) Dec. 29	Sales Returns and Allowances	15	
	Cash		15
	Goods returned from Nov. 12 sale.		

Returned Goods - Not Defective:

(*e2*) Dec. 29	Merchandise Inventory	9	
	Cost of Goods Sold		9
	Returned goods are added back to inventory.		

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perpetual system.

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Buyer Granted Allowance for Defective Goods

Assume that $40 of the merchandise Z-Mart sold on November 12 is defective but the buyer decides to keep it because Z-Mart offers a $10 price reduction.

(*f*) Nov. 24	Sales Returns and Allowances	10	
	Accounts Receivable		10
	Sales allowance granted.		

Learning Objective P2: Analyze and record transactions for merchandise sales using a perpetual system.

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Learning Objective P3

Prepare adjustments and close accounts for a merchandising company.

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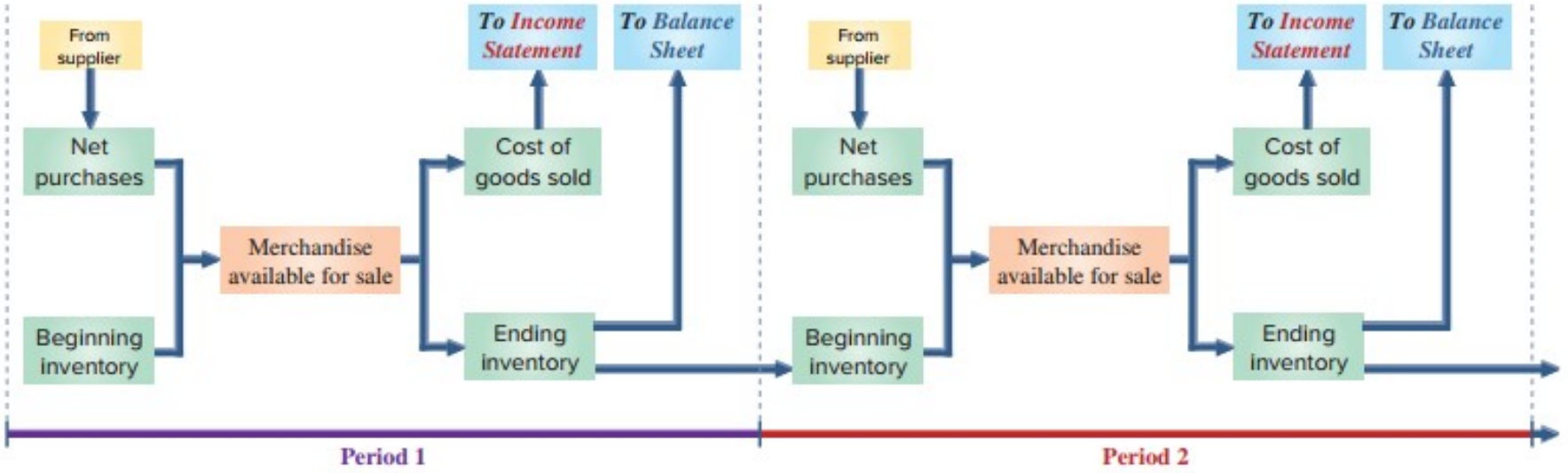
Merchandising Cost Flow in the Accounting Cycle

Exhibit 5.10



Learning Objective P3: Prepare adjustments and close accounts for a merchandising company.

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Adjusting Entries for Merchandisers

Shrinkage: adjustment to reflect loss of

Dec. 31	Cost of Goods Sold	250	
	Merchandise Inventory		250
	Adjust for $250 shrinkage.		

Sales Discounts and Returns and Allowances:
New revenue recognition rules require reporting of sales at net amount expected. Adjusting entries required for:

1. Expected sales discounts
2. Expected returns and allowances (revenue side)
3. Expected returns and allowances (cost side)

Learning Objective P3: Prepare adjustments and close accounts for a merchandising company.

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Closing Entries for Merchandisers

Exhibit 5.11

Step 1: Close Credit Balances in Temporary Accounts to Income

Dec. 31	**Sales**	**321,000**	
	Income Summary		321,000
	Close credit balances in temporary accounts.		

Step 2: Close Debit Balances in Temporary Accounts to Income

Dec. 31	Income Summary	308,100	
	Sales Discounts		**4,300**
	Sales Returns and Allowances		**2,000**
	Cost of Goods Sold		**230,400**
	Depreciation Expense		3,700
	Salaries Expense		43,800
	Insurance Expense		600
	Rent Expense		9,000
	Supplies Expense		3,000
	Advertising Expense		11,300
	Close debit balances in temporary accounts.		

Step 3: Close Income Summary.

Dec. 31	Income Summary	12,900	
	K Marty, Capital		12,900

Step 4: Close Withdrawals.

Dec. 31	K Marty, Capital	4,000	
	K Marty, Withdrawals		4,000

Learning Objective P3: Prepare adjustments and close accou
company.

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Merchandising Entries Summary

Exhibit 5.12

	Merchandising Transactions	Merchandising Entries	Dr.	Cr.
Purchases	Purchasing merchandise for resale.	Merchandise Inventory	#	
		Cash or Accounts Payable		#
	Paying freight costs on purchases; FOB shipping point.	Merchandise Inventory	#	
		Cash		#
	Paying within discount period.	Accounts Payable	#	
		Merchandise Inventory		#
		Cash		#
	Paying outside discount period.	Accounts Payable	#	
		Cash		#
Sales	Recording purchases returns or allowances.	Cash or Accounts Payable	#	
		Merchandise Inventory		#
	Selling merchandise.	Cash or Accounts Receivable	#	
		Sales		#
		Cost of Goods Sold	#	
		Merchandise Inventory		#
	Receiving payment within discount period.	Cash	#	
		Sales Discounts	#	
		Accounts Receivable		#
	Receiving payment outside discount period.	Cash	#	
		Accounts Receivable		#
	Receiving sales returns of nondefective inventory.	Sales Returns and Allowances	#	
		Cash or Accounts Receivable		#
		Merchandise Inventory	#	
		Cost of Goods Sold		#
	Granting sales allowances.	Sales Returns and Allowances	#	
		Cash or Accounts Receivable		#
	Paying freight costs on sales; FOB destination.	Delivery Expense	#	

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Adjusting and Closing: Merchandising Entries

Exhibit 5.12

	Merchandising Events	Adjusting and Closing Entries	Dr.	Cr.
Adjusting	Adjustment for shrinkage (occurs when recorded amount larger than physical inventory).	Cost of Goods Sold	#	
		Merchandise Inventory		#
Closing	Closing temporary accounts with credit balances.	Sales	#	
		Income Summary		#
	Closing temporary accounts with debit balances.	Income Summary	#	
		Sales Returns and Allowances		#
		Sales Discounts		#
		Cost of Goods Sold		#
		Delivery Expense		#
		"Other Expenses"		#
	No change to closing Income Summary and Withdrawals			

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Learning Objective P4

Define and prepare multiple-step and single-step income statements.

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Multiple-Step Income Statement

Exhibit 5.13

Z-MART Income Statement For Year Ended December 31, 2021		
Sales		$321,000
Less: Sales discounts	$ 4,300	
Sales returns and allowances	2,000	6,300
Net sales		314,700
Cost of goods sold*		230,400
Gross profit		84,300
Operating expenses		
Selling expenses		
Depreciation expense—Store equipment	3,000	
Sales salaries expense	18,500	
Rent expense—Selling space	8,100	
Store supplies expense	1,200	
Advertising expense	11,300	
Total selling expenses		42,100
General and administrative expenses		
Depreciation expense—Office equipment	700	
Office salaries expense	25,300	
Insurance expense	600	
Rent expense—Office space	900	
Office supplies expense	1,800	
Total general and administrative expenses		29,300
Total operating expenses		71,400
Income from operations		12,900
Other revenues and gains (expenses and losses)		
Interest revenue	1,000	
Gain on sale of building	2,500	
Interest expense	(1,500)	
Total other revenues and gains (expenses and losses)		2,000
Net income		$ 14,900

Gross profit computation

Income from operations computation

Nonoperating activities computation

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statements.

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Single-Step Income Statement

Exhibit 5.14

Z-MART Income Statement For Year Ended December 31, 2021		
Revenues		$314,700
Net sales		1,000
Interest revenue		2,500
Gain on sale of building		318,200
Total revenues		
Expenses		
Cost of goods sold	$230,400	
Selling expenses	42,100	
General and administrative expenses	29,300	
Interest expense	1,500	
Total expenses		303,300
Net income		$ 14,900

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statements.

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Classified Balance Sheet (1 of 2)

Exhibit 5.15

Z-MART Balance Sheet (partial) December 31, 2021	
Current assets	
Cash	$ 8,200
Accounts receivable	11,200
Merchandise inventory	**21,000**
Office supplies	550
Store supplies	250
Prepaid insurance	300
Total current assets	$41,5

Highly Liquid

Less Liquid

Learning statement

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Learning Objective A1

Compute and analyze the acid-test ratio and gross margin ratio.

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Acid-Test Ratio

Exhibit 5.16

A common rule of thumb is the acid-test ratio should have a value of at least 1.0.
If a company has a ratio of at least 1.0, they are unlikely to face liquidity problems in the near future.

Learning Objective A1: Compute and analyze the acid-test ratio and gross margin ratio.

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Classified Balance Sheet (2 of 2)

Company	$ millions	Current Year	1 Year Ago	2 Years Ago
Nike	Total quick assets	$ 8,935	$ 8,743	$ 9,856
	Total current assets	$16,525	$15,134	$ 16,061
	Total current liabilities	$ 7,866	$ 6,040	$ 5,474
	Acid-test ratio	**1.1**	**1.4**	**1.8**
	Current ratio	**2.1**	**2.5**	**2.9**
Under Armour	Acid-test ratio	1.1	0.9	0.9
	Current ratio	1.9	2.0	2.2

Exhibit 5.17

Learning Objective P4: Define and prepare multiple-step and single-step income statements.

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Gross Margin Ratio

Exhibit 5.18

Percentage of dollar sales available to cover expenses and provide a profit.

$ millions	Current Year	1 Year Ago	2 Years Ago
Gross margin	$17,474	$15,956	$15,312
Net sales	$39,117	$36,397	$34,350
Gross margin ratio	**44.7%**	**43.8%**	**44.6%**

Exhibit 5.19

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ratio.

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Learning Objective P5

Appendix 5A

Record and compare merchandising transactions using both periodic and perpetual inventory systems.

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Periodic Inventory System - Purchases

Periodic inventory system updates inventory only at the end of a period to reflect the quantity and cost of goods available and goods sold.

(*a*) **Periodic**		
Purchase	500	
Accounts Payable		500

Perpetual		
Merchandise Inventory	500	
Accounts Payable		500

(*b1*) **Periodic**		
Accounts Payable	12,900	
Purchases Discounts*		10
Cash		490
*$500 × 2%		

Perpetual		
Accounts Payable.	500	
Merchandise Inventory*		10
Cash		490
*$500 × 2%		

(*b2*) **Periodic**		
Purchase	500	
Cash		500

Perpetual		
Accounts Payable	500	
Cash		500

(*c1*) **Periodic**		
Accounts Payable	30	
Purchases Returns and Allowances		30

Perpetual		
Accounts Payable	30	
Merchandise Inventory		30

(*c2*) **Periodic**		
Accounts Payable	50	
Purchases Returns and Allowances		50

Perpetual		
Accounts Payable	50	
Merchandise Inventory		50

(*d*) **Periodic**		
Transportation-In	75	
Purchases Returns and Allowances		75

Perpetual		
Merchandise Inventory	75	
Cash		75

Learning Objective P5: Record and compare merchandising transactions using both periodic and perpetual inventory systems.

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Periodic Inventory System - Sales

Periodic inventory system updates inventory only at the end of a period to reflect the quantity and cost of goods available and goods sold.

	Periodic			Perpetual		
	Accounts Receivable	1,000		Accounts Receivable	1000	
	Sales		1,000	Sales		1000
	No cost-side entry			Cost of Goods Sold	300	
				Merchandise Inventory		300

	Periodic			Perpetual		
(e1)	Sales Returns and Allowances	15		Sales Returns and Allowances	15	
	Cash		15	Cash		15
(e2)	No entry			Merchandise Inventory	9	
				Cost of Goods Sold		9

	Periodic			Perpetual		
(f)	Sales Returns and Allowances	10		Sales Returns and Allowances	10	
	Accounts Receivable		10	Accounts Receivable		10

Learning Objective P5: Record and compare merchandising transactions using both periodic and perpetual inventory systems.

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Periodic Inventory System – Adjusting and Closing Entries

Exhibit 5A.1

Periodic—Adjusting Entries

(*z*)	None		
(*g*)	Sales Discounts	50	
	Allowance for Sales Discounts		50
(*h1*)	Sales Returns and Allowances	900	
	Sales Refund Payable		900
(*h2*)	Inventory Returns Estimated	300	
	Purchases		300

Entries in gray are covered in Appendix 5B.

Perpetual—Adjusting Entries

Cost of Goods Sold	250	
Merchandise Inventory		250
Sales Discounts	50	50
Allowance for Sales Discounts		50
Sales Returns and Allowances	900	
Sales Refund Payable		900
Inventory Returns Estimated	300	
Cost of Goods Sold		300

Entries in gray are covered in Appendix 5B.

Periodic—Closing Entries

(1)	Sales	321,000	
	Merchandise Inventory (ending)	**21,000**	
	Purchases Discounts	**4,200**	
	Purchases Returns and Allowances	**1,500**	
	Income Summary		347,700
(2)	Income Summary	334,800	
	Sales Discounts		4,300
	Sales Returns and Allowances		2,000
	Merch. Inven. (beginning)		**19,000**
	Purchases		**2,35,800**
	Transportation-In		**2,300**
	Depreciation Expense		3,700
	Salaries Expense		43,800
	Insurance Expense		600
	Rent Expense		9,000
	Supplies Expense		3,000
	Advertising Expense		11,300
(3)	Income Summary	12,900	
	K.Marty, Capital		12,900

Perpetual—Closing Entries

Sales	321,000	
Income Summary		321,000
Income Summary	308,100	
Sales Discounts		4,300
Sales Returns and Allowances		2,000
Cost of Goods Sold		**2,30,400**
Depreciation Expense		3,700
Salaries Expense		43,800
Insurance Expense		600
Rent Expense		9,000
Supplies Expense		3,000
Advertising Expense		11,300
Income Summary	12,900	
K.Marty, Capital		12,900
K.Marty, Capital	4,000	
K.Marty, Withdrawals		4,000

Learning Ob chandising perpetual inventory sys

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Learning Objective P6

Appendix 5B

Prepare adjustments for discounts, returns, and allowances per revenue recognition rules.

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Expected Sales Discounts – Adjusting Entry

Adjusting entries required to estimate sales discounts for current-period's sales expected to be taken in future periods.

1. Z-Mart has unadjusted Accounts Receivable of $11,250 and Allowance for Sales Discounts of $0.
2. $2,500 of receivables are within 2% discount period.
3. Expect buyers to take $50 in future period discounts ($2,500 × 2%).

(*g*) Dec. 31	Sales Discounts	50	
	Allowance for Sales Discounts		50
	Adjustment for future discounts.		

Learning Objective P6: Prepare adjustments for discounts, returns, and allowances per revenue recognition rules.

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Expected Sales Discounts - Financial Statements

Expected Sales Discounts:

Adjusting entries result in Accounts receivable and Sales being reported at their net expected amounts:

Balance Sheet—partial	
Accounts receivable	$11,250
Less allowance for sales discounts	50
Accounts receivable, net	$11,200

Income Statement—partial	
Sales	$321,000
Less sales discounts, returns & allowances	6,300
Net sales	$314,700

Learning Objective P6: Prepare adjustments for discounts, returns, and allowances per revenue recognition rules.

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Expected Returns & Allowances: Revenue Side Adjusting Entries

Seller sets up a Sales Refund Payable, current liability reflecting amount expected to be refunded to customers.

1. Company estimates future sales refunds to be $1,200.
2. Unadjusted balance in Sales Refund Payable is $300 credit.

3.

(h1) Dec. 31	Sales Returns and Allowances	900	
	Sales Refund Payable		900
	*Expected refund of sales.**		

Learning Objective P6: Prepare adjustments for discounts, returns, and allowances per revenue recognition rules.

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Expected Returns & Allowances: Cost Side Adjusting Entries

Seller sets up an Inventory Returns Estimated account, current asset reflecting the inventory estimated to be returned.

1. Company estimates future inventory returns to be $500.
2. Unadjusted balance in Inventory Returns Estimated is $200 debit.
3. Adjusting entry for $300 update to Inventory Returns Est.

(*h1*) Dec. 31	**Inventory Returns Estimated**	**300**
	Cost of Goods Sold	300
	*Expected return of inventory.**	

Learning Objective P6: Prepare adjustments for discounts, returns, and allowances per revenue recognition rules.

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Learning Objective P7

Appendix 5C

Record and compare merchandising transactions using the gross method and net method.

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Perpetual System – Net vs. Gross Method: Purchases

Net method records invoice at its amount net of any discounts.

Gross Method—Perpetual

Merchandise Inventory	500	
Accounts Payable		500

Net Method—Perpetual

Merchandise Inventory	490	
Accounts Payable		490

Gross Method—Perpetual

Accounts Payable	500	
Merchandise Inventory		10
Cash		490

Net Method—Perpetual

Accounts Payable	490	
Cash		490

Gross Method—Perpetual

Accounts Payable	500	
Cash		500

Net Method—Perpetual

Accounts Payable	490	
Discounts Lost*	10	
Cash		500

*For simplicity, we record Discounts Lost on the *payment date*.

Learning Objective P7: Record and compare merchandising transactions using the gross method and net method.

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Perpetual System – Net vs. Gross Method: Sales

Net method records invoice at its amount net of any discounts.

Gross Method—Perpetual

Accounts Receivable	500	
Sales		500
Cost of Goods Sold	200	
Merchandise Inventory		200

Net Method—Perpetual

Accounts Receivable	490	
Sales		490
Cost of Goods Sold	200	
Accounts Payable		200

Gross Method—Perpetual

Cash	490	
Sales Discounts	10	
Accounts Receivable		500

Net Method—Perpetual

Cash	490	
Accounts Receivable		490

Gross Method—Perpetual

Cash	500	
Accounts Receivable		500

Net Method—Perpetual

Cash	500	
Interest Revenue		10
Accounts Receivable		490

Learning Objective P7: Record and compare merchandising trans
and net method.

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End of Chapter 5

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